

**GENERAL INFORMATION**

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Bank of Pontiac, Pontiac, Illinois** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **August 26, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

**INSTITUTION'S RATING:** This institution is rated Outstanding.

The Bank of Pontiac promotes economic revitalization and growth consistent with its size, financial capacity, location and current economic conditions. The bank's CRA program is responsive to the community's credit needs and reflects its commitment to meeting the credit needs of the assessment area. The bank's loan-to-deposit (LTD) ratio and high percentage of loans within the assessment area when compared to its peers, above average dispersion of loans among borrowers of different income levels evidence the bank's outstanding performance. Management is knowledgeable of antidiscrimination laws and has developed adequate policies, procedures and training programs to prevent unlawful discrimination in its lending and credit activities. No prohibited discriminatory lending practices or practices which would intend to discourage loan applicants were detected during the examination. Further, no analysis of the geographic distribution of loans was performed as there are no low- or moderate-income census tracts or block numbering areas (BNAs) in the bank's assessment area. No complaints were received by the institution regarding its CRA performance since the previous examination.

The following table indicates the performance of **Bank of Pontiac, Pontiac, Illinois** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	BANK OF PONTIAC PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans	THERE ARE NO LOW- OR MODERATE-INCOME CENSUS TRACTS OR BNAs IN THE BANK'S ASSESSMENT AREA		
Response to Complaints	NO COMPLAINTS HAVE BEEN RECEIVED SINCE THE PREVIOUS EXAMINATION		

**DESCRIPTION OF INSTITUTION**

The Bank of Pontiac (BOP), with total assets of \$147 million as of June 30, 1996, is a subsidiary of Pontiac Bancorp, Incorporated (PBI), a multi-bank holding company located in downtown Pontiac.

The bank operates its main office at 300 West Washington Street, a branch facility known as ABranch West@ at 1703 West Reynolds Street, and two drive-up locations. The bank's two full-service offices are located in Pontiac; consumer and commercial loans can be closed at the branches, while loan files are maintained at the main bank. Also available to bank customers are two on-premise automated teller machines (ATMs).

The bank's primary business focus is retail banking, with real estate and consumer loans being the predominant products. Based upon information contained in the June 30, 1996 Report of Condition, approximately 58% of the bank's loan portfolio is real estate loans, with 38.29% of real estate loans secured by one-to-four family residences. Consumer, commercial/industrial, commercial real estate and agricultural real estate loans comprise 21.42%, 13.60%, 10.21%, and 5.21%, respectively, of the bank's loan portfolio. Mortgage loans include conventional, private mortgage insurance (PMI), construction loans and home equity loans. Consumer loan products include personal automobile loans, mobile home loans, secured and unsecured personal loans, and reserve checking (overdraft checking). The bank no longer offers student loans; however, applications are available at the bank. The bank sells real estate mortgages on the secondary market (Freddie Mac) and participates in the Farmers Home Administration (FmHA) and Small Business Administration (SBA) loan programs.

The bank's competitors include branches of First of America Bank-Illinois, State Bank of Saunemin and Pontiac National Bank (all located in Pontiac); State Bank of Graymont (Graymont) and various other financial institutions located in nearby Bloomington-Normal. Competition is also provided by local credit unions.

**DESCRIPTION OF BANK OF PONTIAC'S ASSESSMENT AREA**

The Bank of Pontiac is located in Pontiac, Illinois, which is approximately 100 miles southwest of Chicago and approximately 30 miles southeast of Bloomington-Normal. The bank's assessment area includes all of Livingston County and a portion of McLean County. The assessment area contains nine block numbering areas, all within Livingston County, and one census tract in McLean County. The McLean County portion of the assessment area (census tract - #57) is within the Bloomington-Normal Metropolitan Statistical Area (MSA). The following illustration shows the communities within each block number/census tract (BNA/CT) located within the assessment area.

**9601** - Emington, Northeast Dwight, Cardiff, Blair, Campus, Cullon, Griswold  
**9602** - Southwest Dwight, Sunbury, Nevada, Odell, Loretto, Cayuga, Swygert, Rugby  
**9603** - Reading, Ancona, South Streator, Manville, Blackstone, Budd  
**9604** - Long Point, Cornell, Flanagan, Graymont, Waldo  
**9605** - Northwest Pontiac, Rowe  
**9606** - Northeast Pontiac  
**9607** - South Pontiac  
**9608** - Ocoya, McDowell Lodemia, Northwest Fairbury  
**9609** - Saunemin, Eylar, Charlotte, Chatsworth, Forrest, Wing  
**9610** - Southwest Fairbury South Chatsworth, Strawn, Cereal  
**\*57** - Chenoa, Cropsey, Lexington, Weston, Pleasant Hill

\* This is the only census tract within the bank's assessment area, and there are no minority BNAs or CTs tracts within the assessment area.

With the exception of Pontiac, these are small rural communities. The racial make-up of the population is as follows: Whites - 41,492 or 93%; Blacks - 2,036 or 4.6%; individuals of Hispanic decent - 837 or 1.9%; and American Indian 63 or 0.1%. There are two correctional facilities located within Livingston County, the Pontiac and Dwight State Correctional Facilities. A significant portion of the assessment area's minority population are housed in the two facilities.

Of the total population for the assessment area, 5,293 (45.7%), 2,753 (23.8%), 1,885 (16.3%) and 1,649 (14.2%) are upper, middle, moderate, and low-income, respectively with 782 (6.8%) individuals living below the poverty line. According to community representatives contacted during the examination, the City of Pontiac is growing and has a diversified economic base (a blend of agricultural, manufacturing and service-related industries). During the period between 1992 and 1994, finance/insurance/real estate and manufacturing experienced the highest increase at 12.7% and 16.9%, respectively. During the same period, unemployed individuals decreased from 3,709 to 2,753. Employment data published in the Pontiac Illinois Community Guide, revealed that the major employers in the bank's market are Caterpillar, Incorporated (diesel engine components), employing 1,100; RR Donnelley (printing and binding), employing 600; Pontiac State Correctional Center (prison), employing 725; Interlake Companies, Incorporated (storage racks & systems), employing 420; Futures Unlimited, Incorporated (wood and metal work) employing 220; and Johnson Press, Incorporated (trade publication printing) employing 190. Area schools also contribute to employment opportunities, while many residents commute to Bloomington-Normal for work. As reported by the Illinois Department of Commerce and Community Affairs, the unemployment rate for Livingston County is 5.5%, while the State unemployment rate is 5.1%.

Based upon 1990 U.S. census data, there are a total of 16,435 housing units within the bank's assessment area, of which 11,210 or 68.2% are owner-occupied units; 4,471 or 27.2% are rental units; and 754 or 4.6% are vacant units. One-to-four family homes account for the majority (14,248 or 86.7%) of the assessment area's housing, while mobile and multifamily homes comprise 1,183 (7.2%) and 868 (5.3%), respectively, of the remaining housing units. The median age of homes in the bank's assessment area is 37 years; 7,915 (48.2%) were built before 1950. The median housing value is \$46,562, and the median family income is \$34,983.

Discussion with community representatives regarding community growth and trends, revealed that the City of Pontiac is the front runner for the proposed new county law center. As a result, a number of attorneys have established law offices in the downtown area. In addition, a new Holiday-Inn Express Hotel is being built near Interstate I-55 Highway. Stability is currently evident in the downtown district, with few vacant store fronts.

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

The institution is in compliance with the substantive provisions of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and Fair Housing Act.

### **Loan-to-Deposit Ratio Analysis**

An analysis of the bank's Consolidated Reports of Condition for the six quarters since the previous examination revealed an average loan-to-deposit (LTD) ratio of 70.37%. According to the March 31, 1996 Uniform Bank Performance Report (UBPR) data, the bank's LTD ratio exceeds the national peer group by 5.26% (Bank - 68.46% versus Peer - 63.20%). When the bank's LTD ratio as of December 31, 1995 is compared to that of local competitors of similar asset size and product offerings the bank's LTD ratio exceeds the LTD ratio for all except one of its competitors. The LTD ratio does not reflect \$5.9 million in mortgage loans that the bank originated and sold on the secondary market.

Review of the bank's loan policy and discussion with senior management revealed that the bank's board of directors has set a LTD ratio cap not to exceed 70%. According to the Spring 1996, McFadden American Financial Directory, the LTD for the bank's primary competitors ranged from 55.03% to 78.20%. At 71.60%, the bank's LTD ratio is in line with its competitors and is reasonable given the institution's size, financial condition, competition and assessment area credit needs.

### Lending in Assessment Area

Analysis of the examination sample of recently originated loans revealed the following distribution:

LOAN TYPE	TOTAL SAMPLED	WITHIN THE ASSESSMENT AREA	PERCENT OF TOTAL
<b>Consumer Loans:</b>			
Real Estate	10	10	100%
Installment (Direct/Indirect)	30	28	93%
Single Payment	20	18	90%
Home Equity (Open-End)	* 3	3	100%
Reserve Checking (O.D.)	10	9	90%
Commercial and Agricultural	23	21	91%
<b>Total Applications:</b>	<b>96</b>	<b>89</b>	<b>93%</b>

\* Represents total loan activity for this credit product since the previous examination.

The preceding chart illustrates that a high percentage of sampled loans, by product and in aggregate, were made within the assessment area. The bank's most recent quarterly self-analysis of its lending activity within the assessment area (second quarter of 1996) also showed a high percentage of lending in the assessment area, with 90% of consumer loans and approximately 95% of real estate and commercial/agricultural loans made to borrowers within the assessment area. Additionally, an analysis of the bank's total loan activity for commercial/agricultural loans originated since the previous examination showed that 1,383 or 90% of these loans were made to businesses within the assessment area.

The bank's real estate lending activity was compared to that of its competitors. The following chart illustrates seven months (from January 1996 through July 1996) of real estate loans made within Livingston County; the county represents approximately 98% of the bank's assessment area.

BANK NAME	REAL ESTATE LOANS RECORDED	\$ AMOUNT	% OF TOTAL AMOUNT
Bank of Pontiac	224	\$15,558,210	47.96%
Pontiac National Bank	148	\$11,055,561	34.08%

BANK NAME	REAL ESTATE LOANS RECORDED	\$ AMOUNT	% OF TOTAL AMOUNT
First of America Bank- Illinois	75	\$3,628,064	11.18%
State Bank of Graymont	24	\$1,587,700	4.90%
State Bank of Saunemin	10	\$608,800	1.88%
<b>TOTALS</b>	<b>481</b>	<b>\$32,438,335</b>	<b>100.00%</b>

As the preceding chart illustrates, the BOP significantly exceeds the lending activity of its competitors in both number of originated loans recorded and dollar amount total during this period.

### Lending Analysis Based Upon Borrower Income and Size of Business

An analysis of the examination loan sample to determine the distribution of loans among borrowers of different income levels revealed the following income distribution for each applicable loan product:

LOAN TYPE	LOW-INCOME Number/\$000's	MODERATE INCOME Number/\$000's	MIDDLE INCOME Number/\$000's	UPPER-INCOME Number/\$000's
Real Estate	0/ \$0	0/ \$0	10/ \$777	0/ \$0
Installment	4/ \$7	10/ \$35	7/ \$43	4/ \$37
Single Payment	0/ \$0	5/ \$7	14/ \$16	1/ \$.5
Reserve Checking	1/ \$.3	2/ \$.8	3/ \$9	9/ \$0
Home Equity	0/ \$0	0/ \$0	3/ \$50	0/ \$0
Total	5/ \$7	6/ \$43	37/ \$895	14/ \$38

The loan amounts with a decimal point before the number are amounts less than thousand (i.e., \$.3 equal \$300).

	Low Income	Moderate Income	Middle Income	Upper Income
Total Loans	5	6	37	14
Percentage of Total	8.07%	9.68%	59.68%	22.58%
Total (\$000's)	7	43	895	38
Percentage \$	.71%	4.37%	91.05%	3.87%

The preceding charts show that lending activity is distributed among borrowers of different income levels with sixty percent (60%) of the total loans made to middle-income individuals. This lending activity is consistent with the nature of the assessment area, 94% or 41,848 of

the assessment area total population (44,625) are middle income individuals. The bank's assessment area has no designated low- and moderate-income census tracts or BNAs; however, the preceding chart indicates that the bank originated 17.75% of sampled loans to low- or moderate-income individuals.

All commercial and agricultural loans originated since the previous examination were reviewed covering 1,539 outstanding commercial/agricultural loans (totaling approximately \$43 million) for an average loan amount of \$27,997. With the exception of four commercial loans that were greater than a million dollars, all commercial loans originated during this period were in amounts less than \$1 million. These loans ranged from \$100 to \$500,000. For this period, a sample of 27 community development loans (totaling \$1.6 million) in amounts ranging from \$4,000 to \$254,000 were reviewed. Review of these credit files revealed that the bank originated most of these loans to small entrepreneurs (commercial and retail shops). These loan proceeds not only provided financing for many small business ventures and a few housing development projects, but also provided employment for approximately 300 individuals who live within the assessment area.

With the absence of annual revenue information in the credit files of the businesses or farms, loan size was used as a proxy to determine if the distribution of lending to businesses of different sizes is reasonable.

A review of the bank's 1994, 1995 and 1996 Consolidated Reports of Condition (as of June 30) revealed the following loan distribution:

Loan \$ Category (000's)	1996 #	\$	%	1995 #	\$	%	1994 #	\$	%
<b>Small Business</b>									
\$100 or less	186	5,239	58.80%	212	5,174	55.69%	175	4,361	61.74%
\$100 - \$250	19	2,101	23.58%	18	1,853	19.94%	18	1,644	23.27%
\$250 - \$1 million	6	1,570	17.62%	6	2,264	24.37%	4	1,059	14.99%
<b>TOTAL</b>	<b>211</b>	<b>8,910</b>		<b>236</b>	<b>9,291</b>		<b>197</b>	<b>7,064</b>	
<b>Commercial Real Estate</b>									
\$100 or less	352	5,764	49.69%	615	5,579	54.97%	567	5,370	53.44%
\$100 - \$250	26	2,375	20.47%	41	2,415	23.79%	32	2,279	22.68%



\$250 - \$1 million	19	3,462	29.84%	20	2,156	21.24%	17	2,399	23.88%
TOTAL	397	11,601		676	10,150		616	10,048	

Loan \$ Category (000's)	1996 #	\$	%	1995 #	\$	%	1994 #	\$	%
<b>Farmland</b>									
\$100 or less	38	1,440	37.20%	42	1,557	46.22%	36	1,323	51.24%
\$100 - \$250	12	1,621	41.88%	10	1,268	37.64%	10	1,045	40.47%
\$250 - \$1 million	3	810	20.93%	2	544	16.15%	1	214	8.29%
<b>TOTAL</b>	<b>53</b>	<b>3,871</b>		<b>54</b>	<b>3,369</b>		<b>47</b>	<b>2,582</b>	
<b>Small Agricultural</b>									
\$100 or less	245	4,388	81.65%	452	3,958	79.62%	463	4,707	84.28%
\$100 - \$250	8	750	13.96%	13	777	15.63%	10	642	11.50%
\$250 - \$1 million	1	236	4.39%	1	236	4.75%	2	236	4.23%
<b>TOTAL</b>	<b>254</b>	<b>5,374</b>		<b>466</b>	<b>4,971</b>		<b>475</b>	<b>5,585</b>	

The bank made no loans over \$1 million during the three-year period. The preceding charts revealed that only small business loans decreased slightly from 1995 to 1996; however the dollar amount between 1994 and 1996 increased 26.13%. During this same period, small business, commercial real estate and farmland outstanding dollar amount of loans increased, and small agricultural decreased. Management attributed these increases to its proactive approach in making commercial loans, and the services it offers to commercial customers. Management attributes the decrease in small agricultural loans to lack of loan demand during this period.

In addition to the lending activity discussed previously, the bank participates in the following programs which benefit small farms:

The State Treasurer's Agricultural Production Loan Deposit Program (STAPLDP), a program which allows the bank to make agricultural loans within the State of Illinois using flexible underwriting standards, to low- or moderate-income families for agricultural-related purposes. The interest rate charged generally is lower than that charged by lenders for agricultural loans. Since the previous examination, loans totaled \$6,782,912.

The bank participates in the Farmers Home Administration (FmHA) and Small Business Administration (SBA) loan programs. Since the previous examination, the bank originated four FmHA loans totaling \$885,000 and five SBA loans totaling \$358,000. Under the guidelines for this government-insured lending program, qualified applicants are generally new farmers.

The preceding lending activity reflects that the bank exceeds the standards for satisfactory performance in lending to borrowers of different incomes, and to businesses and farms of different sizes and revenues.

**Geographic Distribution of Loans**

An analysis of the bank's geographic distribution of loans is not applicable as there are no low- or moderate-income census tracts or BNAs within the assessment area.

**Response to Substantiated Complaints**

The institution received no complaints regarding its CRA performance since the previous examination.